



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Bankruptcy Fraud

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Overview

IRS Keyword: Fraud

Fiscal Year 2004
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The Bankruptcy Reform Act of 1978 restructured the bankruptcy court system and overhauled the nation's bankruptcy laws to more closely conform to modern commercial transactions. Since these changes liberalized debtor access to bankruptcy relief, annual bankruptcy filings have increased from approximately 300,000 in 1980 to approximately 1.4 million in FY2001. The increasing number of bankruptcy petitions filed has been accompanied by a correlative increase in bankruptcy fraud.

Industry experts estimate that 10% of all bankruptcy petitions contain some elements of fraud. This results in serious consequences which undermine public confidence in the system, taint the reputation of honest citizens seeking protection under the bankruptcy statutes, and have a negative impact on voluntary compliance in our income tax system. With so much at stake, the detection and prosecution of bankruptcy fraud continues to be a priority for the IRS, as well as the Department of Justice.

Over the past five years, bankruptcy filings have averaged 1.37 million annually, with the IRS a party to approximately 40 percent of these filings. Since the IRS is often a major creditor in many bankruptcy proceedings, it is important that we protect the interests of the IRS. The IRS files over 150,000 proofs of claim per year to protect billions in taxes annually.

The goals of IRS Criminal Investigation's Bankruptcy Fraud Program are to:

- Increase voluntary compliance with federal tax laws through the prosecution of those committing significant crimes in the bankruptcy arena
- Enhance IRS presence among bankruptcy professionals and practitioners for the dual purpose of increasing compliance and providing contact points to report allegations of fraud
- Foster enhanced cooperation between the IRS Operating Divisions and Criminal Investigation in attaining mutual compliance goals.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	50	58	50
Prosecution Recommendations	27	21	17
Indictments/Informations	22	16	12
Sentenced	13	14	23

Incarceration Rate*	61.5%	92.9%	87.0%
Average Months to Serve	26	29	23

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Bankruptcy Fraud

The following examples of bankruptcy fraud investigations are excerpts from public record documents on file in the courts in the judicial district in which the cases were prosecuted.

Son, Father and Mother Sentenced for Bankruptcy Fraud and Money Laundering

On May 10, 2004, in Albany, NY, Charles H. Barber, his father, Charles M. Barber, and his mother, Helen J. Barber, were sentenced for their roles in a scheme to defraud the government. The three defendants were convicted by jury of multiple offenses, including bankruptcy fraud, wire fraud, and a money laundering conspiracy. Charles H. Barber and Charles M. Barber were convicted of converting federal program funds to their own use, and with defrauding the U.S. Department of Housing and Urban Development (HUD) and the town of Queensbury, NY, in connection with a \$370,000 loan made by the town with HUD program funds to AMG, Industries, Inc., a company owned and operated by the defendants. Also, father and son were convicted of concealing assets from the trustee, creditors, and the U.S. Bankruptcy Trustee, in connection with their respective bankruptcy proceedings. Charles M. Barber was found guilty of transferring approximately \$489,000 from his brokerage account to an account in the Bahamas, in contemplation of his bankruptcy case. The jury convicted all three defendants of engaging in a money laundering conspiracy to transfer funds to and from the United States, knowing that the funds were the proceeds of unlawful activity, and in order to conceal the nature, location, source, ownership, and control of the funds before the bankruptcy proceedings.

Charles M. Barber and Charles H. Barber were sentenced to serve 48 months in prison to be followed by five years supervised release. Citing Helen J. Barber's lesser role in the scheme, the judge sentenced her to serve 33 months in prison followed by five years of supervised release. All three defendants were also ordered to jointly pay \$1.935 million in restitution.

Doctor in Bankruptcy Fraud Case Sentenced to Federal Prison

On February 9, 2004, in Los Angeles, CA, Robert A. Grant was sentenced to 33 months in prison after pleading guilty to conspiracy, bankruptcy fraud and money laundering. Grant concealed assets from the bankruptcy court and his creditors, including the IRS, when he filed for bankruptcy in October 1995. To carry out the scheme, Grant used corporations and trusts held in the names of third parties, but actually controlled by Grant. These "nominee" corporations were designed to hold Grant's assets, including 80 acres of vacant land and \$4.5 million from his pension fund and other liquid assets. The liquid assets were transferred back to Grant after his bankruptcy case was completed through salary payments and other distributions made through the nominee corporations and trusts.

Father/Son Businessmen Plead Guilty to Federal Conspiracy Charge

On September 26, 2003, in Dallas, TX, Richard Dale (Dale) Sterritt Jr. was sentenced to serve 60 months imprisonment and ordered to pay \$13,069,425.00 in restitution after pleading guilty to conspiracy to commit securities fraud, money laundering and filing false income tax returns. Richard Dale Sterritt, Sr. plead guilty to the same charges and is scheduled to be sentenced on October 24, 2003. From July 1991 to the beginning of September 1998, Richard Dale Sterritt, Jr. was Chairman of the Board of Directors, President, and Chief Executive Officer of Continental Investment Corporation (CIC). CIC's common stock was traded over the counter on the National Association of Securities Dealers' Bulletin Board Pink Sheets System. Richard Dale Sterritt, Sr. owned substantial amounts of CIC stock. The Sterritts admitted that

they conspired together, and with Fred Royer, to manipulate CIC's stock price. Royer was a licensed securities broker-dealer and was the President and CEO of another closely-held company controlled by the Sterritts. Royer pled guilty to his role in the scheme and was sentenced this month to three years probation. The Sterritts made it appear that the stock was in demand by transferring stock between CIC and other entities, which they represented to be controlled by third parties. The Sterritts admitted that they well knew that by transferring stock among companies they controlled and influenced, that the CIC stock would appear to be in demand or the value of CIC assets would be inflated, thereby artificially raising the stock price. The Sterritts admitted that as a result of their actions, individual investors purchased CIC stock at inflated prices.

Business Owner Sentenced on Federal Tax and Financial Fraud Charges

On July 15, 2003, in New haven, CT, William A. Trudeau was sentenced to 22 months in prison followed by three years supervised release and ordered to pay \$458,312 in restitution. Trudeau pled guilty to one count of unlawfully failing to account for and pay over employee trust fund taxes, and to one count of wire fraud. Trudeau admitted that he failed to account for and pay over \$232,030 to the IRS in trust fund taxes for employees working at businesses that he operated from 1993 to 1997. Trudeau further admitted to engaging in ten fraudulent loan and lease transactions during 1999 in connection with the purchase of multiple real properties, cars and computer equipment.

Stratosphere Subcontractor Gets Federal Prison Time

On September 9, 2003, in Las Vegas, NV, Ronnie Lee Ford was sentenced to 57 months in federal prison for his guilty plea to Tax Fraud Conspiracy, Concealment of Bankruptcy Assets, and Tax Evasion. Ford was also ordered to pay more than \$1.7 million in restitution to the United States, and ordered to serve three years of supervised release following his release from prison. Ford, Secretary and Treasurer of Ramhorn Construction, Inc. and its successor, Dryifs, Inc., admitted that he and his partner, Bobby Allen, cheated the IRS and lied to the United States Bankruptcy Court in connection with the January 1997 bankruptcy filing of their company Ramhorn Construction, Inc. From September 1995 through September 1997, Ramhorn Construction, Inc. had a \$12 million subcontract to provide an exterior coating to the outer wall of the Stratosphere Tower in Las Vegas. Ford and his co-conspirators made false statements to the IRS and U.S. Bankruptcy Court in order to conceal the true profits they made from the Stratosphere contract. Their fraud included the diversion of \$1.4 million dollars to nominees and nominee bank accounts, the use of false business expenses, and an extensive use of cash to hide their true profits. Co-defendant Bobby Allen was sentenced to 37 months in prison on June 13, 2003, for his guilty pleas to Tax Fraud Conspiracy and Bankruptcy Fraud. Co-defendant Stanley Greene also pleaded guilty to Tax Fraud Conspiracy and Bankruptcy Fraud, and will be sentenced in Las Vegas this Friday, September 12, 2003, by U.S. District Court Judge Roger L. Hunt..

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Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.